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INFO RUEHXK/ARAB ISRAELI COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 000931

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NEA FOR FRONT OFFICE; NEA/IPA FOR WILLIAMS/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/WATERS; TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

E.O. 12958: DECL: 05/14/2017

TAGS: [ECON](#) [EFIN](#) [EAID](#) [PREL](#) [KWBG](#)

SUBJECT: PALESTINIAN MONETARY AUTHORITY REFORMS GEARED TOWARD EVENTUAL CENTRAL BANK ROLE

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) Summary: George Abed, Governor of the Palestinian Monetary Authority (PMA), told the Consul General May 11 that his program to reorganize the PMA along the lines of a central bank is 70 percent complete. He hopes that the U.S. and other donors will increase training and technical assistance to support the restructuring. Abed noted that the Palestinian banking system is "doing fine" but -- to the detriment of the economy -- continues to severely restrict available credit. The situation will worsen if "sanctions" against the Palestinian Authority (PA) are not lifted. He stated that a proposed OPIC loan guarantee program would help mitigate some of the risk to expanding credit. Eliminating some of the obstacles to access and movement would also help the economy. Abed expressed his confidence that a U.S. federal court's order freezing PMA-administered funds in the U.S. will soon be settled in the PMA's favor. End summary.

¶2. (C) PMA Governor Abed told the Consul General May 11 that his reorganization of the PMA along the lines of a central bank is 70 percent complete. He said that structural changes and reforms will prepare the PMA to take charge of monetary policy and issuance of currency when circumstances permit. He noted that the PMA is attempting to open an account with the Bank for International Settlements (BIS) to facilitate and secure technical support for treasury, payment and reserve management operations. Abed reported that the primary constraint on achieving his goals has been the dearth of experienced people to fill important PMA positions, particularly in the payment systems and treasury/reserve management departments. He advised that the Arab Monetary Fund has already contributed USD 1.8 million for a USD 5 million payments system. Abed said that European experts would soon identify other areas where donor funds and technical assistance could be helpful, and hoped that USAID would consider extending support. The Consul General urged Abed to meet with the USAID Mission Director to discuss the scope of the SEFIR project.

¶3. (C) Abed praised UK and IMF assistance, most recently on the drafting of an anti-money laundering (AML) law and sponsorship of an AML workshop. He said that he and other proponents of the legislation have succeeded in generating a "perception of need" for such a law by emphasizing its anti-corruption and anti-criminal applications. Language specific to terrorism financing could be added later. He declined to predict, however, if and when the Hamas-controlled Palestinian Legislative Council (PLC) would approve such a measure, though some PLC members have reportedly expressed support.

¶4. (C) After asserting that the Palestinian banking system is doing fine -- in part due to the PMA's tightening up of bank supervision and procedures -- Abed noted that partial salary payments to PA employees have not significantly reduced the number of non-performing loans, and the PA itself is still in arrears on many commercial bank loans. Abed stated that outstanding loans had dropped to about USD 268 million from a high of USD 320 million out of a total banking system loan portfolio of USD 1.9 billion, but he does not expect the situation to be cleared up any time soon due to the continuing public finance crisis.

¶5. (C) Abed said he also remained concerned about the slow deterioration of private sector credit. Even though he has "pushed" banks to keep their capital in the West Bank and Gaza, Abed reported that, under current conditions, banks are not inclined to stimulate growth by extending credit. Abed predicted that the situation will only worsen if "sanctions" against the PA continue. He noted that the proposed OPIC/Palestine Investment Fund (PIF) loan guarantee program would help expand credit. Abed said that the removal of some of the obstacles to movement and access would also help boost the economy.

¶6. (C) Abed expressed confidence that the PMA would soon be free of any threat from further legal action in US courts attempting to tie the PMA to the PA and PLO. He explained that a New York Superior Court summary judgment in the Ungar case against "the PLO et al." had made it clear that the PMA is an independent entity disassociated from the PLO and the PA. Abed stated that, based on this determination, the U.S. District Court judge presiding over a similar case (Leslye Knox, et al. against the PLO, et al.) has required the

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plaintiffs to show cause has to why the PMA should be included in a suit against the PLO.

WALLES